

CHAPTER 4
INVESTMENT TAX CREDITS RELATING TO INVESTMENTS IN A FUND OF FUNDS
ORGANIZED BY THE IOWA CAPITAL INVESTMENT CORPORATION

123—4.1(15E) Contingent tax credits relating to investments in Iowa fund of funds. Contingent tax credits are available for investments made in the Iowa fund of funds organized by the Iowa capital investment corporation in accordance with Iowa Code section 15E.65. Tax credit certificates related to the contingent tax credits will be issued by the Iowa capital investment board. If the tax credit certificates are redeemed, a taxpayer may claim a credit against the taxpayer's tax liability for personal net income tax imposed under Iowa Code chapter 422, division II; business tax on corporations imposed under Iowa Code chapter 422, division III; taxation of financial institutions imposed under Iowa Code chapter 422, division V; taxation of insurance companies imposed under Iowa Code chapter 432; or taxation of credit unions imposed under Iowa Code section 533.24.

123—4.2(15E) Definitions. The following definitions are applicable to this chapter:

"Act" means Iowa Code sections 15E.61 through 15E.69.

"Actual return" means the actual aggregate amount of moneys or the fair market value of property received from a fund of funds by all designated investors in such fund of funds (or class of equity interests in such fund of funds), and any transferees of such designated investors, including amounts received as returns of invested capital, returns on invested capital and amounts received in excess of invested capital in whatever form received.

"Board" means the Iowa capital investment board created under Iowa Code section 15E.63.

"Certificate" or *"tax credit certificate"* means a document constituting a contract between the state of Iowa and a holder and evidencing a tax credit that has been issued and, subject to the contingencies described on the certificate, that may become available to the holder.

"Certificate register" means the register to be maintained by the department recording the name, address, and taxpayer identification number of each holder and the maximum potential amount of the tax credits represented by each certificate issued to each holder.

"Closing" means a time when a designated investor contributes cash to the capital of a fund of funds.

"Contingencies" shall mean the conditions under which a tax credit may be claimed and shall include and be limited to each of the following:

1. The condition that the tax credits may only be used to the extent that the actual return with respect to the applicable fund of funds (or class of equity interests in such fund of funds) is less than the applicable scheduled return, and then only to the extent such tax credit becomes a verified tax credit;

2. The condition that the percentage of the total verified tax credits represented by such certificate that first may be claimed during any redemption year will be limited to the percentage verified by the board to the department;

3. The condition that no amount of the tax credit may be claimed prior to the redemption date for the applicable fund of funds; and

4. The condition that receipt by the designated investors in the applicable fund of funds (or class of equity interests in such fund of funds) of an actual return equal to the scheduled return will result in the cancellation of the tax credit certificate.

"Day" means any weekday Monday through Friday that is not a legal holiday in the state of Iowa.

"Department" means the Iowa department of revenue.

"Designated investor" means a natural person or an entity, other than the Iowa capital investment corporation or the revolving fund, that contributes capital to a fund of funds, and such person's successors and assignees.

“Fiscal year” means the fiscal year for the state of Iowa.

“Fund of funds” means any private, for-profit limited partnership or limited liability company established by the revolving fund to which a designated investor makes a capital contribution.

“Holder” means a holder of a tax credit certificate, either as a designated investor or as a transferee of a designated investor, as reflected on the certificate register.

“Investment amount” means the amount of cash contributed by a designated investor to a fund of funds at a closing.

“Iowa capital investment corporation” means the private, nonprofit corporation created pursuant to Iowa Code section 15E.64.

“Percentage of return” means the percentage represented by the quotient of (1) the actual return for all designated investors in a fund of funds (or class of equity interests in such fund of funds) divided by (2) the scheduled return for such designated investors.

“Portfolio entity” means a venture capital fund or direct investment entity in which a fund of funds makes an investment.

“Redemption date” means a specific calendar year date on which a fund of funds is scheduled to have liquidated its interest in all portfolio entities and to have made the final distribution of the proceeds thereof to designated investors in accordance with the limited partnership agreement or operating agreement of such fund of funds and these rules, provided that in no event shall the redemption date be a date less than five years from the last closing for such fund of funds.

“Redemption year” means each calendar year for which verified tax credits related to a fund of funds may be utilized to reduce tax liabilities. The first redemption year for a fund of funds shall be the calendar year of the redemption date.

“Revolving fund” means the private, for-profit limited partnership established by the Iowa capital investment corporation as a revolving fund of funds pursuant to Iowa Code section 15E.65.

“Scheduled return” means the scheduled rates of return or the scheduled redemptions of equity interests (including returns of and returns on investment) for all designated investors in a fund of funds (or class of equity interests in such fund of funds) determined in accordance with the limited partnership agreement or the operating agreement of such fund of funds and as specified by any rules relating to such fund of funds.

“Tax credit” means a contingent tax credit authorized pursuant to Iowa Code section 15E.66 that is available against tax liabilities up to the amount stated on the certificate for such tax credit, which amount may not exceed the amount by which the scheduled return exceeds the actual return.

“Tax liabilities” means those tax liabilities identified in rule 123—4.1(15E).

“Verified tax credits” means tax credits that have been verified by the board to the department and to the holder of the certificate that represents such tax credits.

123—4.3(15E) Report of the Iowa capital investment corporation. No less than 30 days prior to each closing, the Iowa capital investment corporation shall deliver a written report to the board and to the department containing the following information:

1. A copy of the certificate of limited partnership or articles of organization of the revolving fund and the fund of funds for which the closing is scheduled, certified by the Iowa secretary of state;
2. A summary of the terms of the anticipated investments in such fund of funds as contained in the limited partnership agreement or the operating agreement of the fund of funds.

No less than two days prior to each closing, the Iowa capital investment corporation shall deliver to the board a signed statement of an officer of the Iowa capital investment corporation stating the names, addresses and taxpayer identification numbers of the persons expected to be designated investors at the closing, the total amount of the capital contributions expected to be received at the closing, the maximum amount of tax credits to be represented by each certificate to be issued at the closing, the date of the anticipated closing, and the redemption date for the fund of funds.

123—4.4(15E) Allocation and issuance of certificates. Certificates shall be issued only by the board and only with respect to an actual cash capital contribution to a fund of funds by a designated investor, and not merely with respect to a commitment by a designated investor to make such a capital contribution.

The Iowa capital investment corporation shall certify to the board the investment amount for each designated investor in each closing and the maximum amount of tax credits that may become available by reason of such investment amount (subject to all contingencies), and the board shall issue a certificate to each such designated investor. The maximum amount of tax credits represented by each certificate shall be calculated in accordance with the limited partnership agreement or operating agreement of the applicable fund of funds. The board shall not issue certificates if, in the aggregate, the maximum amount of tax credits represented by all issued and uncanceled certificates at any time would exceed \$100 million (less the aggregate amount of any tax credits that have been used to reduce tax liabilities) calculated in accordance with Iowa Code section 15E.66.

A tax credit certificate shall contain each of the following:

1. The name, address, and tax identification number of the holder;
2. The investment amount associated with that certificate and (if applicable) the class of interests issued to the designated investor that has contributed such investment amount;
3. All of the contingencies applicable to the tax credits;
4. The date of issue of the certificate;
5. The maximum amount of the tax credit represented by the certificate;
6. The redemption date of the certificate;
7. The calculation formula for determining the scheduled return;
8. The calculation formula for determining the amount of the tax credit that may be used to reduce tax liabilities;
9. If the certificate is issued upon a transfer after the redemption date for the related fund of funds, the amount of the verified tax credits represented by such certificate and the redemption year(s) for which they may be used to reduce tax liabilities; and
10. A statement that, although the certificate is not considered a security pursuant to Iowa Code chapter 502, the certificate does constitute a security as such term is defined in Iowa Code section 554.8102(1) “o” solely for purposes of the creation, perfection, priority and enforcement of security interests.

123—4.5(15E) Procedures for verification of tax credits.

4.5(1) Within 10 days after the redemption date for a fund of funds, the Iowa capital investment corporation shall certify to the board the percentage of return for the designated investors in such fund of funds (or for a class of designated investors in such fund of funds). If the percentage of return is less than 100 percent, the Iowa capital investment corporation shall certify the resulting total amount of tax credits per dollar of investment amount to be verified for use by holders of certificates related to such fund of funds (or to a class of equity interests in such fund of funds) in accordance with the terms of the limited partnership agreement or the operating agreement of the fund of funds. The Iowa capital investment corporation shall give notice of such percentage of return and such amount of tax credits per dollar of investment amount to each holder of a certificate related to such fund of funds at the holder’s address as it appears on the certificate register.

4.5(2) Within 30 days after the certification of the Iowa capital investment corporation to the board of the percentage of return for a fund of funds (or for a class of equity interests in such fund of funds), the board shall establish and verify the percentage of tax credits related to that fund of funds (or a class of equity interests in such fund of funds) that may be initially used in each redemption year so that each of the following tests will be satisfied:

- a. No more than \$20 million in tax credits, in the aggregate, may become useable to reduce tax liabilities in any fiscal year (provided that such \$20 million limitation shall not limit the carryforward of tax credits otherwise authorized by the Act or these rules);
- b. One hundred percent of each holder’s tax credits relating to such fund of funds shall become available to reduce tax liabilities starting with the first redemption year for that fund of funds and expiring no later than the end of the fourth fiscal year after the first redemption year for that fund of funds; and
- c. Tax credits shall become verified tax credits for each holder of a certificate related to a fund of funds pro rata with all other holders of certificates related to such fund of funds.

4.5(3) The board shall issue to each holder a verification setting forth for each certificate held by such holder (a) the amount of verified tax credits represented by such certificate (if any) and (b) the amount of verified tax credits represented by such certificate that may first become useable to reduce tax liabilities in any redemption year (if any).

EXAMPLE: The redemption date for a hypothetical fund of funds is August 31, 2010, and an aggregate of \$30 million in tax credits related to that hypothetical fund of funds shall become verified tax credits, of which an aggregate of \$20 million may be used to reduce tax liabilities in the fiscal year July 1, 2010, through June 30, 2011, and an aggregate of \$10 million may be used to reduce tax liabilities in the fiscal year July 1, 2011, through June 30, 2012. There are three holders of certificates with respect to such fund of funds: Holder A is entitled to an aggregate of \$15 million of tax credits and Holders B and C are each entitled to an aggregate of \$7.5 million in tax credits. Holder A is a calendar year taxpayer. Holder B’s tax year for state income tax purposes ends November 30, and Holder C’s tax year for state income tax purposes ends May 31. These holders may use the verified tax credits to reduce tax liabilities as follows:

Holder	Holder’s Tax Year End for Which Tax Credits May Be Used	Amount of Tax Credits that Holder May Use to Reduce Tax Liabilities for Such Year	Corresponding State Fiscal Year Ending
A	12/31/10	\$10 million	6/30/11
A	12/31/11	\$5 million	6/30/12
B	11/30/10	\$5 million	6/30/11
B	11/30/11	\$2.5 million	6/30/12
C	5/31/11	\$5 million	6/30/11
C	5/31/12	\$2.5 million	6/30/12

123—4.6(15E) Contractual nature of certificates; irrevocability of tax credits. Upon the contribution by a designated investor of an investment amount to the capital of a fund of funds, the entitlement of a holder to use the tax credits represented by the certificate associated with such investment amount shall be final and permanent, subject only to the contingencies, and such entitlement shall not be subject to any further condition, reduction, modification, amendment, change, or revocation.

The entitlement of a holder to claim tax credits represented by a certificate shall be in the nature of a contract between the state of Iowa on the one hand and such holder and the holder's successors and assignees on the other hand which shall not be subject to modification, amendment, change or rescission without prior written consent of the holder as of the date of any such purported action. No such modification, amendment, change or rescission to which a holder may have agreed shall be binding upon any of the successors or assignees of such holder unless it is stated in the text of the certificate issued to such successor or assignee.

The entitlement of a holder to claim tax credits represented by a certificate shall not be affected in any way by:

1. Action or inaction of the holder or designated investor following payment of the investment amount associated with such certificate;
2. The transfer by the designated investor of all or any portion of the designated investor's interest in a fund of funds;
3. The determination after the date of initial issuance of such certificate that a fund of funds was not organized or did not make its investments in accordance with the requirements of the Act or these rules;
4. The invalidity or illegality for any reason of the existence or functions of the board, the revolving fund, a fund of funds or the Iowa capital investment corporation or the investments made by a fund of funds or one or more of the portfolio entities;
5. The bankruptcy, insolvency, reorganization, merger, consolidation, dissolution or liquidation of the board, the revolving fund, any fund of funds, the Iowa capital investment corporation or any portfolio entity for any reason; or
6. The level, timing, or degree of success of any fund of funds or any portfolio entities, or the extent to which venture capital funds that are portfolio entities are invested in Iowa venture capital projects, or are successful in accomplishing any economic development objective.

If the legal existence of the board, the revolving fund, a fund of funds, the Iowa capital investment corporation or the department is ended or some or all of their respective functions are transferred to another entity at any time prior to the full use of 100 percent of the tax credits that could potentially be represented by all of the certificates, the board shall adopt such rules as may be necessary to ensure the continuity and effectiveness of the entitlement of each holder to use the tax credits represented by such holder's certificate.

Once the investment amount has been paid by a designated investor, a certificate shall be binding on the board and the department, and the tax credits represented thereby shall not be modified, terminated, or rescinded or subject to recapture.

123—4.7(15E) Transfer of tax credit certificates. Certificates shall be transferable by the holders and any subsequent holders to any transferee or transferees.

Transfer of a certificate may be effected only by the holder's surrender of the certificate to the board with an endorsement in favor of the transferee, or transferees, and a statement containing the name, address and tax identification number of the transferee, and a written request for the board to issue a replacement certificate or certificates in the name of the transferee(s) (as well as, in any case where the transferor requests that more than one replacement certificate be issued, a statement by the transferor that sets forth the percentages of the aggregate amount of tax credits represented by the transferred certificate that are to be represented by each replacement certificate).

Within 30 days after the surrender and endorsement of a certificate, the board shall issue a replacement certificate or certificates in the name of the transferee(s). Once a transferor of a certificate has surrendered a certificate to the board, such transferor may no longer use the tax credits represented by such certificate.

A holder shall have the right to pledge and grant security interests in certificates and tax credits held by such holder as collateral for loans to or other obligations of such holder.

123—4.8(15E) Cancellation of tax credits upon receipt of scheduled return. Tax credits are subject to cancellation only upon receipt by the designated investors of an actual return equal to the scheduled return. At the time of each distribution to designated investors in a fund of funds (or to a class of designated investors in such fund of funds) prior to the redemption date, the Iowa capital investment corporation shall determine the amount of tax credits related to such fund of funds (or to a class of equity interests in such fund of funds) that have been canceled and have become null and void by reason of such distribution, if any, and shall certify such amount to the board. After any such certification, the board shall certify to each holder of a certificate related to tax credits that have been canceled, at the holder's address as shown on the certificate register, and to the department the amount of tax credits that are deemed to have been canceled and to be null and void. If at any time prior to the redemption date the actual return from a fund of funds to designated investors (or to a class of designated investors in such fund of funds) shall equal the scheduled return, the Iowa capital investment corporation shall so certify to the board. After any such certification, the board shall certify to each such holder at the holder's address as shown on the certificate register and to the department that all certificates relating to such fund of funds (or class of equity interests in such fund of funds) shall be deemed to have been canceled and to be null and void. Tax credits in respect to a fund of funds that are canceled may be reissued in respect to another fund of funds.

123—4.9(15E) Lost or mutilated tax credit certificates. Upon receipt of evidence satisfactory to the board of the loss, theft, destruction or mutilation of any certificate, and in case of any such loss, theft or destruction, upon delivery of any indemnity agreement satisfactory to the board, or in case of any such mutilation, upon surrender and cancellation of such certificate, the board shall issue and deliver to the holder a replacement certificate.

123—4.10(15E) Claiming the tax credits. The holder shall attach a copy of the verification or (if the applicable certificate has been transferred after the date of such verification) a copy of the certificate issued to such holder to any tax return in which verified tax credits are used to reduce tax liabilities. Verified tax credits may be carried forward by the holder for use in any of the seven calendar years following the applicable redemption year.

The following nonexclusive examples illustrate how this rule applies:

EXAMPLE 1: Holder X has redeemed Holder X's tax credit certificate and received verification from the board authorizing the use of the following amounts of tax credits to reduce tax liabilities in the indicated years: 2010: \$700,000; 2011: \$140,000; 2012: \$70,000. Holder X has zero Iowa tax liability in 2010, \$900,000 of tax liabilities in 2011 and \$100,000 of tax liabilities in 2012. Holder X may carry forward the \$700,000 in tax credits that were first useable in 2010. Holder X may use up to \$840,000 of tax credits in 2011 and \$70,000 in 2012.

EXAMPLE 2: Holder X has redeemed Holder X's tax credit certificate and received verification from the board authorizing the use of tax credits to reduce tax liabilities that are the same as in Example 1. Holder X has zero in Iowa taxable income in each of the years 2010 through 2014. Holder X may carry forward the \$700,000 of tax credits attributable to 2010 and use such tax credits in years 2015, 2016 and 2017 (i.e., up to seven tax years after 2010). To the extent that the \$700,000 of tax credits attributable to 2010 is not used by 2017, Holder X may no longer use such tax credits. Holder X may carry forward the \$140,000 of tax credits attributable to 2011 and use such tax credits in years 2015, 2016, 2017 and 2018 (i.e., up to seven tax years after 2011). To the extent that the \$140,000 of tax credits attributable to 2011 is not used by 2018, Holder X may no longer use such tax credits. Holder X may carry forward the \$70,000 of tax credits attributable to 2012 and use such tax credits in years 2015, 2016, 2017, 2018 and 2019 (i.e., up to seven tax years after 2012). To the extent that the \$70,000 of tax credits attributable to 2012 is not used by 2019, Holder X may no longer use such tax credits.

EXAMPLE 3: Holder X has redeemed Holder X's tax credit certificate and received verification from the board authorizing the use of tax credits to reduce tax liabilities that are the same as in Example 1. In 2011, Holder X actually uses \$840,000 of tax credits to reduce an equal amount of tax liabilities (reducing Holder X's tax liabilities in 2011 to zero). In 2014, as a result of an audit, Holder X's tax liabilities for 2011 are changed to \$700,000. That adjustment creates \$140,000 in tax credits that were not actually useable in 2011. Holder X may use this \$140,000 of tax credits in years 2012 through 2018.

If a holder is a partnership (whether general, limited or limited liability), limited liability company that has not elected to be taxed as a corporation for federal income tax purposes, or a corporation for which a valid Iowa "S" election is in effect, and such holder has no tax liability because only the partners, members or shareholders of such holder are subject to the tax liabilities imposed by the state of Iowa and described in section 15E.62(6) of the Act, the holder may allocate the tax credits represented by the holder's certificate among the holder's partners, members or shareholders. Such allocation shall be made on the basis of the pro rata share of earnings from the partnership, limited liability company, or S corporation calculated in accordance with the organizational documents of the holder.

If a holder is an estate or trust, the tax credits represented by the holder's certificate shall be allocated to such estate or trust or to such other person to whom the income of such estate or trust is taxed in proportion to each such person's actuarial interest in such estate or trust.

123—4.11(15E) Notification to the department of revenue. Upon the issuance, distribution, redemption, or transfer of tax credit certificates, the board shall provide copies of the tax credit certificates or replacement certificates to the department of revenue.

123—4.12(15E) Other provisions. The department shall maintain the certificate register at its principal office. The certificate register shall be open to inspection by holders during the department's normal business hours. The department shall, upon request, issue confirmation as to the ownership of a certificate or entitlement to tax credits. The certificate registry is the conclusive record of holders and their entitlements to tax credits.

All notices, requests, and submissions required to be sent to the board shall be sent to the Iowa Capital Investment Board in care of the Iowa Department of Revenue, 1305 E. Walnut Street, Hoover State Office Building, Des Moines, Iowa 50319.

Each fund of funds shall principally make investments in venture capital funds managed by investment managers who have made a commitment to consider equity investments in businesses located within the state of Iowa and who have committed to maintain a physical presence within the state of Iowa. For purposes of this requirement, a physical presence in Iowa includes, but is not limited to, having an office or other business location in Iowa or having employees or representatives present in Iowa on a regular and continuing basis.

123—4.13(15E) Redemption date and priority of tax credits with respect to limited partnership interests in the Iowa fund of funds, Fund A. The redemption date for Fund A shall be the later of (1) the end of the fifth year after the last closing for Fund A or (2) the date on which Fund A has liquidated its interest in all portfolio entities and has made the final distribution of the proceeds thereof to its designated investors. In the event verified tax credits related to Fund A should become useable in the same fiscal year as verified tax credits related to any other fund of funds, the tax credits related to Fund A shall have preference over those of any other fund of funds with respect to the \$20 million limitation. The 30-day period for verification of tax credits may be extended in the case of any fund of funds other than Fund A in order to give effect to the priority of tax credits with respect to Fund A.

The following nonexclusive examples illustrate how this rule applies:

EXAMPLE 1: The hypothetical redemption date for Fund A is September 1, 2009, whereupon an aggregate of \$50 million in tax credits shall become verified tax credits. The hypothetical redemption date for Fund B is December 1, 2009, whereupon an aggregate of \$30 million in tax credits shall become verified tax credits. The \$20 million per fiscal year limitation shall be applied as follows:

Fiscal Year	Tax Credits Useable by Holders With Respect to Fund A	Tax Credits Useable by Holders With Respect to Fund B
2009 - 2010	\$20,000,000	-0-
2010 - 2011	\$20,000,000	-0-
2011 - 2012	\$10,000,000	\$10,000,000
2012 - 2013	-0-	\$20,000,000

EXAMPLE 2: The hypothetical redemption date for Fund B is December 1, 2009. The hypothetical redemption date for Fund A is December 1, 2010. No tax credits with respect to Fund B may be verified or used until the amount of verified tax credits for Fund A is determined. Verified tax credits with respect to Fund A (if any) will then become useable in their entirety before verified tax credits with respect to Fund B, as illustrated by Example 1.

In the event verified tax credits related to two or more classes of limited partnership interests in Fund A (each a Fund A class) should become useable in the same fiscal year, the tax credits related to any Fund A class shall have preference over those of any other Fund A class with respect to the \$20 million limitation described in this rule only as specified in the limited partnership agreement for Fund A.

123—4.14(15E) Scheduled return and tax credits represented by certificates issued with respect to Class C limited partnership interests in Fund A. The scheduled return for designated investors in Class C limited partnership interests (the “Class C interests”) in Fund A shall be equal to each such designated investor’s investment amount plus a percentage calculated in accordance with the limited partnership agreement for Fund A.

If the percentage of return certified for the benefit of holders of certificates issued with respect to Class C interests in Fund A is less than 100 percent, the board shall verify tax credits represented by each certificate issued with respect to Class C limited partnership interests in Fund A in an amount equal to the product of (1) the percentage represented by the positive difference between 100 percent and the percentage of return multiplied by (2) the scheduled return determined in accordance with the formula reflected on such certificate.

The following nonexclusive examples illustrate how this rule applies:

EXAMPLE 1: Holder X has a certificate for which the scheduled return is \$1,500,000. The maximum amount of tax credits represented by the certificate is \$1,500,000. The Iowa capital investment corporation determines that the percentage of return is 15 percent. The positive difference between 100 percent and 15 percent is 85 percent. Accordingly, Holder X's verified tax credits would be \$1,275,000, calculated as follows:

$$100\% - 15\% = 85\%$$

$$85\% \times \$1,500,000 = \$1,275,000$$

Holder X's verified tax credits would initially become useable to reduce tax liabilities in the applicable initial redemption year and in each of a maximum of four subsequent redemption years in the percentages determined by the board.

EXAMPLE 2: Holder X has a certificate for which the scheduled return is \$1,500,000. The maximum amount of tax credits represented by the certificate is \$1,500,000. The Iowa capital investment corporation determines that the percentage of return is 85 percent. The positive difference between 100 percent and 85 percent is 15 percent. Accordingly, Holder X's verified tax credits would be \$225,000, calculated as follows:

$$100\% - 85\% = 15\%$$

$$15\% \times \$1,500,000 = \$225,000$$

Holder X's verified tax credits would initially become useable to reduce tax liabilities in the applicable initial redemption year and in each of a maximum of four subsequent redemption years in the percentages determined by the board.

EXAMPLE 3: Holder X has a certificate for which the scheduled return is \$1,500,000. The maximum amount of tax credits represented by the certificate is \$1,500,000. The Iowa capital investment corporation determines that the percentage of return is 162 percent. Holder X has no redeemable tax credits because there is no positive difference between 100 percent and 162 percent.

123—4.15(15E) Scheduled return and tax credits represented by certificates issued with respect to Class A limited partnership interests in the Iowa fund of funds, Fund A. The scheduled return for designated investors in Class A limited partnership interests ("Class A interests") in Fund A shall be equal to each such designated investor's investment amount. If the percentage of return certified for the benefit of holders of certificates issued with respect to Class A interests in Fund A is less than 100 percent, the board shall verify tax credits represented by each certificate issued with respect to Class A interests in Fund A in an amount equal to the product of (1) the percentage represented by the positive difference between 100 percent and the percentage of return multiplied by (2) the investment amount reflected on such certificate multiplied by (3) a percentage determined in accordance with the limited partnership agreement (which percentage shall not exceed 100 percent).

The following nonexclusive examples illustrate how this rule applies:

EXAMPLE 1: Holder X has a certificate evidencing an investment amount of \$1,000,000 in Class A interests. Assuming that the percentage set by the limited partnership agreement is 66.66 percent, the maximum amount of tax credits represented by the certificate is \$666,666. The Iowa capital investment corporation determines that the percentage of return is 15 percent. The positive difference between 100 percent and 15 percent is 85 percent. Accordingly, Holder X's verified tax credits would be \$566,610, calculated as follows:

$$100\% - 15\% = 85\%$$

$$85\% \times \$1,000,000 = \$850,000$$

$$\$850,000 \times 66.66\% = \$566,610$$

Holder X's verified tax credits would initially become useable to reduce tax liabilities in the applicable initial redemption year and in each of a maximum of four subsequent redemption years in the percentages determined by the board.

EXAMPLE 2: Holder X has a certificate evidencing an investment amount of \$1,000,000 in Class A interests. Assuming that the percentage set by the limited partnership agreement is 66.66 percent, the maximum amount of tax credits represented by the certificate is \$666,666. The Iowa capital investment corporation determines that the percentage of return is 85 percent. The positive difference between 100 percent and 85 percent is 15 percent. Accordingly, Holder X's verified tax credits would be \$99,990, calculated as follows:

$$100\% - 85\% = 15\%$$

$$15\% \times \$1,000,000 = \$150,000$$

$$\$150,000 \times 66.66\% = \$99,990$$

Holder X's verified tax credits would initially become useable to reduce tax liabilities in the applicable initial redemption year and in each of a maximum of four subsequent redemption years in the percentages determined by the board.

EXAMPLE 3: Holder X has a certificate evidencing an investment amount of \$1,000,000 in Class A interests. Assuming that the percentage set by the limited partnership agreement is 66.66 percent, the maximum amount of tax credits represented by the certificate is \$666,666. The Iowa capital investment corporation determines that the percentage of return is 162 percent. Holder X has no redeemable tax credits because there is no positive difference between 100 percent and 162 percent.

123—4.16(15E) Scheduled return and tax credits represented by certificates issued with respect to Class D limited partnership interests in Fund A. The scheduled return for designated investors in Class D limited partnership interests ("Class D interests") in Fund A shall be equal to each such designated investor's investment amount. If and only if (1) the percentage of return for holders of certificates issued with respect to Class D limited partnership interests in Fund A is less than 100 percent and, (2) as of the redemption date for Fund A, aggregate capital commitments from investors in Fund A, and any other fund of funds, have not in the aggregate exceeded \$100,000,000, then the board shall verify tax credits represented by each certificate issued with respect to Class D limited partnership interests in an amount equal to the product of the percentage represented by the positive difference between 100 percent and the percentage of return multiplied by the investment amount reflected on such certificate. If at any time prior to the redemption date for Fund A, Fund A, together with all other fund of funds, has received aggregate capital commitments from investors in excess of \$100,000,000, then from and after such date the board shall verify tax credits represented by each such certificate on the same terms and for the same percentage as certificates issued with respect to Class A limited partnership interests in Fund A.

These rules are intended to implement Iowa Code chapter 15E as amended by 2002 Iowa Acts, chapter 1005.

[Filed emergency 7/3/03—published 7/23/03, effective 7/3/03]

[Filed 8/28/03, Notice 7/23/03—published 9/17/03, effective 10/22/03]